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ABSTRACT

This report was prepared at the request of ED>Net, the California Community College Economic Development Network. The primary purpose of this study was to learn from other states about revenue streams outside the general fund that could support and promote economic development programs at community colleges, particularly sources of revenue that tie funding more directly to business. A secondary purpose was to gather preliminary information on how other community college systems are measuring the impact of economic development activities on workers and firms. Although the economic development activities of community colleges are broader than workforce development, education and training are the primary focus for most colleges. As such, this study concentrated on employer-focused workforce development programs. In total, this year's investment by states in employer-focused training will probably exceed $600 million. States use a variety of financing mechanisms to fund these programs. This study evaluated some of those that appeared most promising for the California context. They include the following: the Unemployment Insurance training tax; withholding tax diversion; a tax credit program administered by the community colleges; programs that balance credit and non-credit FTE reimbursement; and incentive grants to community colleges to "match" fee-for-service revenue. (JA)

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California Community Colleges and Economic Development

Options and Opportunities

A report to ED>Net

November 1999

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EXECUTIVE SUMMARY

This report was prepared at the request of ED>Net, the California Community College Economic Development Network. The primary purpose of the study was to learn from other states about revenue streams outside the general fund that could support and promote economic development programs at community colleges, particularly sources of revenue that tie funding more directly to business. A secondary purpose was to gather preliminary information on how other community college systems are measuring the impact of economic development activities on workers and on firms themselves.

GENERAL CONCLUSIONS

- States that are placing major emphasis on workforce and economic development are investing in their community colleges.
- The financing mechanism is less important than how a program is structured.
- A series of isolated programs is unable to have real impact. States need an integrated system.
- It no longer makes sense to separate workforce development and economic development.
- A program's financing mechanism should provide sufficient revenue and be stable.
- The program should be accountable to its stakeholders and customers.

Although the economic development activities of community colleges are broader than workforce development, education and training are the primary focus for most colleges. As such, this study concentrated on employer-focused workforce development programs. Today, forty-seven states have one or more of this type of program. In total, this year's investment by states in employer-focused training will probably exceed $600 million.

States use a variety of financing mechanisms to fund these programs. This study evaluated some of those that appeared most promising for the California context. They include: the Unemployment Insurance training tax; withholding tax diversion; a tax credit program administered by the community colleges; programs that balance credit and non-credit FTE reimbursement; and incentive grants to community colleges to "match" fee-for-service revenue. Other public funding sources and mechanisms evaluated were: federal funding sources, use tax diversion, restitution funds, and training loans.

States also have assigned community colleges different roles within the employer-focused training programs. These roles

range from full responsibility to almost no involvement at all.

Several general conclusions emerged from the study:

- States that are placing major emphasis on workforce development and economic development are investing in the capacity of their community college system.

- The financing mechanism used is less important than how the program is structured. Both must reflect the policy objectives of the program.

- A series of isolated programs is unable to have real impact. States need to construct an integrated system.

- It no longer makes sense, conceptually or in practice, to separate economic development and workforce development. An integrated system should support both the competitive goals of firms and the lifelong learning needs of workers.

  Within this general context:

  - The system should be able to serve many different kinds of workers, including new entrants, new hires, and incumbent workers.

  - The system must be genuinely responsive to the needs and constraints of firms. That is, programs must be able to serve small firms as well as large; they must intimately involve the firms and industries they are designed to serve; they should provide firms with the technical assistance required to develop an effective training plan; training providers must be reimbursed for the cost of customizing training, so firms are not simply offered off-the-shelf programs; turnaround times must be quick and training must be offered in a form that is convenient to the firm; and the program should have as little red tape as possible.

  - The system must be committed to the principle of lifelong learning. This is critical from the perspective of both firms and workers in a world in which firms' skill needs are constantly changing.

  - Firms should have a financial stake in the system. This is because employers feel more ownership when they are paying at least part of the cost. This is also fair since some of the benefit of the program accrues directly to employers.

- A program's financing mechanism should provide sufficient funds to have a real impact; it should also be stable enough so that effective long-term capacity and relationships can be built.
- The program should be accountable to its customers and investors.
- An effective program must be tailored to each state's particular context.

In addition, the framing assumptions underlying the study's recommendations include two related principles and one strategic goal:

- Principles:
  - A "portfolio" of programs is most effective in developing a strategic approach to employer-focused training.
  - Any new program should complement those already in place in California.
- Strategic Goal:
  - To permit California to take maximum advantage of its community colleges as it puts together an integrated workforce development and economic development system.

Recommendations

Two kinds of recommendations are offered. The first are policy objectives—consistent with ED>Net's strategic plan—that emerged from the study. They are seen as complementing California's existing set of employer-focused programs, especially the Employment Training Panel and ED>Net programs. The second are recommendations of financing mechanisms that can be used to meet these policy objectives.

❖ Recommended Policy Goals

- ➢ Create a program or set of programs with the explicit objective of increasing the ability of the California community college system to deliver employer-focused workforce development programs by targeting funding for this purpose.
- ➢ Provide funding to community colleges for technical assistance to firms and for the "front end" work of customizing training.
- ➢ Develop a mechanism to link the goals of economic development with those of lifelong learning.
- ➢ Provide incentives for system behavioral change by *both* firms *and* community colleges that results in more effective workforce and economic development.

❖ Recommended Financing Mechanisms

Financing Recommendations

- General Recommendation:

The Unemployment Insurance training tax should be the "first choice" financing mechanism for employer-focused training.

- Specific Recommendations:

- Because California already uses UI tax funding to finance the ETP, create a special program within the ETP based on the community college system.
- California should also consider:

A new financing mechanism to foster systemic change and support technical assistance using either withholding tax diversion or a tax credit, administered by community colleges, to do this.

Policies to balance credit and non-credit FTE reimbursement.

○ General Recommendation

The Unemployment Insurance (UI) training tax is the funding source that meets the greatest number of public policy and efficiency criteria and thus should be the "first choice" financing mechanism for employer-focused training.

○ Specific Recommendations

- Because California already uses UI tax funding to finance the Employment Training Panel, it should consider creating a special program within the ETP based within the community college system.

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- California should also consider the following:

    - A new financing mechanism that would: 1) foster systemic behavioral change, and 2) support system-wide technical assistance capacity within community colleges. Either the withholding diversion mechanism or tax credits, in both cases administered by community colleges, could be used for this purpose.

    - Policies to balance credit and non-credit FTE reimbursement and to make it easier to provide credit for workplace-based training programs.

❖ Performance Measurement Recommendations

A final recommendation details some of the principles the California community college system might consider in developing a performance measurement system for its employer-focused programs.

These are: a) simplicity of use and comprehension; b) articulation with the performance measurement systems of other key workforce development players (such as the ETP); c) impact on individuals should be measured; and d) measures on firms should be tracked over the length of time necessary to determine impact.

INTRODUCTION

This report was prepared at the request of ED>Net, the California Community College Economic Development Network. The primary purpose of the study was to learn from other states about revenue streams outside the general fund that could support and promote economic development programs at community colleges, particularly sources of revenue that tie funding more directly to business. A secondary purpose was to gather preliminary information on how other community college systems are measuring the impact of economic development activities on workers and on firms themselves.

- **ED>Net defines economic development as those programs in which the firm, rather than the learner, is the customer. For the community colleges, the principal form this takes is employer-focused training.**

- **Today employer-focused training is big business. In 1999, states will invest roughly $600 million in these programs.**

However the ED>Net mission led us beyond these two specific areas of focus. Underlying the interest in funding schemes and performance measures was a broader concern about how to more effectively engage community colleges in economic development. As such, this question animated our research and served as one of its primary filters.

ED>Net defines "economic development" as those programs in which the firm, rather than the individual worker or student, is the customer. By this definition, community colleges in California and across the nation are engaged in a wide range of economic development activities. Not all of these activities involve workforce development, but because the vast majority does—and because education and training is the core competency of community colleges—this report concentrates on *employer-focused workforce development* programs.

There are several general points to make about these programs. The first is that publicly subsidized employer-focused training is becoming a big business and it is virtually entirely funded by the states. A decade ago, total state spending for these programs was approximately $350 million; by this year it had reached roughly $600 million. Forty-seven of the fifty states have at least one employer-focused training program.

The second important point to make is that the principal reason for the dramatic rise in investment in this kind of training is the growing skill demands of the workplace.

Because of this, the pressure for such programs is coming both from employers and from workers. Thus, these programs blur the line between workforce development and economic development.

Third, across the country there is tremendous variation in how states have designed these programs. Increasingly many states are constructing a "portfolio" of complementary programs to meet a range of needs and policy goals. The role of community colleges in these programs also varies widely, from full responsibility to almost no involvement at all.

Despite these variations, a number of general conclusions emerged from our review of the state programs. These conclusions are summarized below. The rest of the report then details the most interesting and promising financing schemes, describing the advantages and disadvantages of each, and provides a general review of other funding mechanisms. A special section weighs the various funding sources and programs in terms of their ability to effectively involve the business customer. Section Four then provides a few general observations on designing a system of performance measurement. And, finally, Section Four presents our recommendations.

❖ GENERAL CONCLUSIONS

The following general conclusions emerged from this review of state employer-focused training programs:

1. States that are placing major emphasis on workforce development and economic development are investing in the capacity of their community college system.

Across the country, states have assigned community colleges a variety of roles in their employer-focused training programs. In some cases, community colleges run the whole show; that is, they both administer the program and deliver most or all of the training. At the other extreme, community colleges are simply one among many vendors of training. (See Appendix E for detailed list.)

The first and most important conclusion that emerged from our review is that the states that are most serious about developing a well-articulated system of lifelong learning and economic development are heavily investing in building the capacity of their community college systems. This is because community colleges are uniquely positioned. They are public institutions; are more vocational in their orientation than the rest of the higher education system, serve thousands of adult learners every year, and many have developed close relationships with local firms.

In the emerging new economy, it is increasingly difficult to draw a bright line between workforce development and economic development. The southern states that initiated aggressive training programs as a recruitment tool for basic manufacturing have now developed those programs into sophisticated systems supporting both workers' and firms' goals. Similarly, there is a tight connection between workforce and economic development in the practice of many leading edge colleges. In fact one of the reasons community colleges are so central to the creation of a first class workforce development system is precisely because as institutions they can effectively sit at this intersection of workforce and economic development.

Community colleges also have real delivery capacity, and they are already in the business of this kind of training. In the absence of a powerful, multi-functional community college system, states have very few institutional tools to use in the development of a robust and universally accessible system of adult learning or in the development of an effective economic development program.

2. The financing mechanism for a program is less important than how the program is structured. Both must reflect the policy objectives of the program.

The second overarching conclusion of this survey is the finding that the funding mechanism is far less important than the way a state structures its employer-focused program or portfolio of programs. That is, although some funding sources are better suited to particular policy goals, a variety of financing mechanisms can be used for the same policy purpose if the program is appropriately crafted. What this means is that before a state selects a financing scheme or develops its program(s), the key stakeholders must clearly establish the policy goals the program(s) hope to achieve.

3. A series of isolated programs is unable to have real impact. States need to construct an integrated system.

Third, any single institution or program cannot accomplish the twin projects of building an effective system of workforce development and an effective system of economic development. What is required is tight linkages among a multiplicity of organizations and organizational systems and, therefore, a well articulated portfolio of programs.

Further, the issue of system building extends to the community colleges themselves. Across the nation one can distinguish entrepreneurial *colleges* from state *community college systems* that have taken on the challenge of economic development. Interestingly, in between these two extremes, community colleges in numbers of states are moving to adopt a set of voluntary policies and

procedures to link themselves together more effectively[1] This is an important first step in creating the basis for a state's community colleges as a system to articulate with other workforce development and economic development institutions.

As the descriptions of funding sources and mechanisms in Section One suggests, some provide more and some less incentive for entrepreneurial behavior. And some are more systemic in their impact than others.

4. It no longer makes sense to separate economic development and workforce development. An integrated system should support both the competitive goals of firms and the lifelong learning needs of workers.

Many of the employer-focused training programs reviewed for this study are *not* set up as one building block in an overall system of lifelong learning. They are stand-alone programs that are not well integrated into the state's system of higher education. This separation makes less and less sense—from the perspective of either firms or workers—in the context of an economy that requires adults to keep upgrading and changing their skills.

However, creating an integrated system means balancing the needs of employers and workers, and the public policy goals of the state with the private interests of firms. It also means crafting policies and selecting funding mechanisms that create incentives for this integration.

What are the features of such an integrated system?

➢ The system should be able to serve many different kinds of workers, including new entrants, new hires, and incumbent workers.

This survey suggested that the kinds of workers targeted by state employer-focused training programs fall into four broad categories (the last of which overlaps with the first three):

- New entrants—workers being training to work in a firm or industry in which they are not employed;
- New hires—workers just hired by a new or expanding firm;
- Incumbent workers—those already employed by a firm or industry; and
- Workers with particularly serious barriers to getting hired, retaining their jobs, or moving up a career ladder.

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[1] In California, of course, ED>Net itself represents just such an initiative.

The choice of which category of worker to target is often a by-product of a broader policy goal for the program. A concern about skill shortages can lead to a focus on new entrants; business attraction and expansion programs focus on new hires; states concerned with existing employers and with building systems of lifelong learning focus on incumbent workers; a focus on low wage, low skill workers flows from states' commitment to economic opportunity for all their citizens.

Some states have targeted only one goal, although that is increasingly rare. The trend across the nation is that states are developing a portfolio of programs that can address these various different policy objectives.

- **The system must be genuinely responsive to the needs and constraints of firms.**

  - **An effective system of workforce and economic development is able to meet the needs of small and mid-sized firms as well as large ones.**

    Programs that are not structured with the special needs of smaller firms in mind often unwittingly erect barriers that prevent these employers from accessing the program. This is unfortunate because smaller firms and their workers are most likely to be in need of public support. Smaller firms can least afford to invest in their workers and workers in these firms often have lower skills and wages than workers in large firms.

  - **Programs seriously engage the firm and/or industry in long-term relationships.**

    Universally those interviewed in our survey reiterated that community colleges that wanted to be players in economic development had to develop long-term, multi-dimensional relationships with the firms in their area.

  - **Firms are provided technical assistance to help them define their business problems and to design training plans.**

    Firms are not in the training business and frequently do not have the internal capacity to develop a training plan that will achieve their desired goals. The most effective community colleges around the country offer firms a range of technical assistance services. *The ability to help firms make an internal assessment and develop a plan is probably more central to the development of a real partnership between employers and community colleges than*

simply training delivery. In fact, community colleges that are in the business of economic development frequently refer firms to other training providers, since they are unable to meet the whole range of a firm's needs. However, for community colleges (or any other institution, for that matter) to play this critical role, they have to be compensated for it. Thus at least one of a state's portfolio of programs must be able to support this kind of effort.

- **Training providers are reimbursed for the cost of creating customized programs.**

  The argument here is similar. Off-the-shelf programs rarely meet firms' needs. However, if community colleges (or other training providers) are to be able to customize training offerings, they need to be compensated for this work. Many programs fail to build this feature into their overall design.

- **Turnaround times are quick and training is delivered in a form that is convenient for the firm.**

  These requirements of employer-focused training can pose real challenges for community colleges. Often changes in institutional practice are required.

- **There is as little red tape as possible.**

  Both at the state level and at the community college level, administrative procedures need to be customer-friendly.

➢ **The system must be committed to the principle of lifelong learning. This is critical from the perspective of both firms and workers in a world in which firms' skill needs are constantly changing.**

The speed of technological change and the emergence of a truly global economy have combined to create a tumultuous environment where new jobs and new industries are frequently emerging; others are dying; and skill requirements are ever-changing. The education system can no longer be set up as a staircase where when you reach the top, you are done with learning. Workers learn as much after they leave their formal education as during it; and much of that learning is on the job.

To meet this challenge, states are scrambling to craft genuine systems of lifelong learning. The best have the following characteristics: They are accessible, affordable, labor market-responsive, and workplace- as well as

school-based. Also they are "modularized" and "articulated". That is, because adult learners must earn while they learn, learning tends to occur in "bits" over time. For this learning to accumulate and build on what came before, it has to be divided into linked modules. For learners to get "credit" for their learning, skills learned in one setting (say a workplace) must be recognized in another (say a community college). As such, programs need to be "skill-based", rather than based on hours in a classroom.

➢ Firms should have a financial stake in the system.

Employers are more involved in a program and more likely to ensure that it meets their real business needs when they have a financial stake in it. In fact, the more direct the link between an *individual* firm and program financing, the greater their involvement.

But firms should shoulder part of the financial burden for another reason also. States should not pay for training that firms would otherwise pay for themselves. This means that all subsidized training should provide workers with transferable skills. Employers should foot the bill for firm-specific skills training. Also, this guidepost provides a yardstick against which to measure the amount of reasonable public subsidy for various kinds of training programs. At the other end of the continuum from firm-specific training is basic skills training which, arguably, should be entirely publicly subsidized.

5. A program's financing mechanism should ensure program impact and stability.

This survey of state practices also revealed that effective programs affect enough firms and workers to have real impact. As such, the financing mechanisms need to generate substantial revenue and the programs need to be designed with scale in mind. Stability of funding from one year to the next is also critical so that effective capacity can be built and long-term relationships with firms can be established.

6. A program should be accountable to its customers and investors.

Firms are concerned about the return on their investment in training; legislators also want to know that programs are achieving the desired policy goals. Ideally, that means there should be some link between performance and funding. Minimally, robust performance measurement systems should be put it place.

7. Effective programs are tailored to each state's specific context.

This not only means that Vermont is different from California, but equally important it means that as the California community colleges think about initiating a new program, it is critical to take stock of what other tools California already has in its tool chest. Any new program or set of programs should plug the holes.

Section One

FUNDING SOURCES AND MECHANISMS

The primary purpose of this study was to review and evaluate financing sources and mechanisms for employer-focused training. After preliminary investigation, five seemed particularly interesting and relevant to the California context and therefore they were examined most closely.

These five are:

- An Unemployment Insurance training tax;
- Withholding tax diversion schemes, particularly those that are based in the community college system;
- A tax credit program administered by the community colleges;
- Policies that balance credit and non-credit FTE reimbursement; and
- Incentive grants to community colleges that "match" fee-for-service revenues.

In addition, this section of the report evaluates the advantages and disadvantages of numbers of other sources of revenue: fee-for-service, federal funding sources, use tax diversion, restitution funds, training loans, and corporate gifts.

Throughout the report, an "evaluative filter" is used to weigh the strengths and weaknesses of each funding mechanism. This filter is detailed in the adjacent box. The criteria are not our own but emerged from our survey. They are "principles of success" cited by many of those interviewed.

EVALUATIVE FILTER

Does the financing mechanism provide?

- **Impact and stability?** Does it generate sufficient funds to make an impact and is funding fairly stable from year to year?
- **Incentives for firm involvement?**
- **Incentives for community colleges to serve firms?** Particularly does it encourage *long-term* relationships between firms and colleges?
- **The ability to serve many different kinds of workers?** Including new entrants, new hires, incumbent workers?
- **Permit small as well as large firms to be served?**
- **Fund technical assistance to firms?**
- **Fairly align costs and benefits?** Especially between the public and private sectors?
- **Simplicity of administration?** Is the mechanism relatively simple to administer?

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UNEMPLOYMENT INSURANCE TRAINING TAX

Definition

The use of a special unemployment insurance tax for employer-focused training was innovative when it was first implemented almost twenty years ago; however, today the use of this financing mechanism is becoming more common. Typically the tax is instituted when states are lowering their overall UI tax rate. In these cases, tax rates are lowered but a new tax for purposes of workforce development is instituted. The net effect is to lower rates slightly less than would have occurred without the imposition of the new tax. The tax is paid by entirely by employers.

State Models

California's Employment Training Panel was the pioneer in the use of this funding mechanism. California enacted its program in 1982. Since then, twelve other states have followed suit and numbers of states are considering moving to this funding source for employed worker training. The states presently using a UI tax to fund training are: Alaska, California, Delaware, Hawaii, Idaho, Indiana, Massachusetts, Nebraska, New Jersey, North Carolina, Rhode Island, South Dakota and Texas.

How the Program Works

In effect, the program channels monies to a training fund instead of being deposited into the state's unemployment insurance fund. Federal law precludes the direct use of UI taxes for training so states introduce a new tax on employers.

The funds collected in this way can be used for a variety of kinds of training programs. In general, however, they are used for incumbent worker training. Across the country, more than three-quarters of funds from UI taxes are used to train employed workers. This is at least partially because the monies raised are a direct tax on firms and workers. For this reason both employers and unions feel a more direct ownership of programs funded through the UI wage tax.

Only in North Carolina is there a UI program administered by the community colleges. The program is only one of North Carolina's employed worker training programs, is the smallest of its programs, and is funded only half from the UI tax (and the other half from general revenues). The Idaho program uses community colleges as preferred providers.

Advantages and Disadvantages of Funding Mechanism

❖ Advantages of UI-tax funding.

- **Employer involvement:** Employers pay unemployment insurance taxes. To the extent to which employer-focused training is funded through this mechanism, the employer community, rather than state general revenues, bears the cost of the program (although some economists would argue that employers pass on some or all of the cost in the form of lower wages or higher prices). This is an advantage insofar as there is a direct connection between who pays for and who benefits from the program and it ensures that employers will feel ownership of the program.

- **Stability:** Because it is a tax, this funding mechanism is stable across time. That is, it is "automatic" from year to year as long as the legislation remains in place.

- **Impact:** UI tax financing can raise significant amounts of revenue for employer focused training (as borne out by the substantial $112 million raised in California in FY 1998).

- **Workforce eligibility:** All categories of workers can be served because training dollars are not tied to a single firm (as with tax diversion and tax credit mechanisms) nor are they tied to new hires only.

- **Simplicity of administration:** The mechanism for collecting funds is relatively simple and straightforward.

- **No "hidden" costs:** There are no "hidden" costs for a significant amount of behind the scenes professional services, such as there are with tax diversion mechanisms.

❖ Disadvantages of UI-tax funding

- **No inherent incentive for firms and community colleges to work together:** The greatest disadvantage of UI-tax funding is that is does not necessarily encourage cooperation between community colleges and firms. One reason UI tax-funded programs do not tend to be community college-based is because firms see the UI tax as "their" money and they therefore want freedom of choice in selecting a vendor, including the ability to use in-house trainers.

- **Possible business opposition:** Because this is usually a new tax on the employer community, it may oppose the legislation and particularly resist the imposition of public goals on the program. *Neither seems to be a major problem in California.*

- **Legislative opposition:** Legislators may fear that the "formula-based" character of the funding mechanism locks them into a potentially expensive program. *Again, this is not a problem in California.*

- **Not counter-cyclical**: UI training tax receipts will go down in times of lower employment and up in times of higher employment, since they are a percentage of overall UI tax receipts. When fewer people are employed, a lower amount of taxes will be collected. Therefore, if a state desires to use the UI training tax for "new entrant" training (meaning people who want to switch employers or people not currently employed), there will be less money when the need for worker mobility is potentially higher and there is more "down time" for workforce training. However, it would be possible for a "reserve fund" to be built up in good economic times, explicitly and solely to be used during recessionary periods.[2]

WITHHOLDING TAX DIVERSION FUNDING MECHANISMS

Definition

The basic model uses debt financing through the sale of bonds to generate the funds used for employee training. The debt is repaid through diversion of employee income tax payments withheld by the firm. In two of the states using this funding mechanism, the bonds are issued by the community colleges; in another, the community colleges are the sole training provider. In most cases, these are business attraction programs since funding is generated by new hires.

[2] This recommendation is being made by Dr. Richard Moore in a forthcoming ETP evaluation report.

State Models

Four states use a withholding tax diversion mechanism to finance all or much of their employer-focused training programs: Iowa, Kansas, Missouri, and North Dakota. The most important common elements among these programs are that debt is the source of funds to pay training and other costs and employee income taxes withheld by the firm are the source of debt repayment. But because the withholding taxes are in effect never collected by the state – and are instead used to pay off the bond – the net effect is that the cost of the program is borne by the state.

There are also important variations among the states' models, but the most important from the perspective of this study is the role of the community colleges. In Iowa and Missouri, the community colleges issue the bonds; in Kansas, although the bonds are issued by the state, companies are required to apply through a college and so the college in effect becomes a partner with the company, even if they provide only some or none of the training themselves.

How the Program Works

The original Iowa program—the Industrial New Jobs Training Program—is illustrative. Interested companies approach a community college. Projected withholding taxes for new jobs are estimated based on a formula that yields the maximum amount of the project. The community college groups projects together and issues bonds one or two times a year using investment bankers, bond brokers and other professionals. The proceeds of the bond issue are deposited in a bank and the community college is able to use the interest. To repay the bonds, the company pays the allowable percentage of withholding taxes to the community college quarterly (the rest of withholding taxes are sent to the Department of Revenue), which the college then forwards to the bank.

The Iowa program serves small as well as large companies; most have 150 employees or fewer. Size of projects has ranged from approximately $43,000 to $1.5 million. The average is perhaps $300,000 to $500,000.

Under NJTP the training is provided either by the community college, another vendor, or the firm itself, but the colleges administer the program. All training provided by the community colleges is non-credit. There is interest in moving to credit courses because employees – and therefore their employers – understand the value of receiving credit.

The NJTP seems to promote synergy between the business services and academic parts of the college. Instructors come from the academic side of the community colleges. The structure of the Iowa program also provides strong entrepreneurial incentives for community colleges. The more bonds they sell, the more funds are available for worker training. A critical feature of the Iowa program is that it, unlike the other three, continues to divert withholding taxes even after the bond is paid off to form a pool of money for the

community colleges for incumbent worker training and other economic development activities.

The three other states also using this mechanism have implemented interesting variations on this same theme. One of these programs, the North Dakota program, has no special role for community colleges. All four programs are described in much greater detail in Appendix A.

Advantages and Disadvantages of the Funding Mechanisms

❖ Advantages

- **Control**. From the perspective of the community colleges, there are substantial advantages to the basic model of the Iowa and Missouri programs in particular. Community colleges have substantial control over the funds raised and over program design. Because the amount of funds available is driven by the number of projects developed and bonds sold (up to some state cap), community colleges have strong incentives to market the program.

- **Business and legislative support.** In all four states the mechanisms were reported to be very popular with businesses and hence enjoyed strong legislative support as well.

- **Stability.** There are several reasons these programs tend to remain in place once enacted. First is business and legislative support. In addition, withholding tax diversion programs enjoy the support of the various professionals (such as investment bankers and bond brokers) who enjoy increased business as a result of the program. And lastly, they are "sold" as employment-generating programs, which makes them popular.

- **Long-term relationship with each employer**. These programs generally require a close long-term working relationship between a community college and a firm. As a consequence, there can be substantial "spillover" effects from bond-funded programs.

- **Strengthens community colleges' capacity**. The relationships developed between the community college and the firm can produce significant improvement in individual college's ability to be responsive to business needs. In response firms increasingly use the college to meet their workforce development and other business needs.

- **Incentives for entrepreneurship**. In instances in which a) the community college issues the bonds; b) the community college manages the overall program; or c) where the state requires that the community college approve every project, there is significant entrepreneurial behavior on the part of the community colleges.

❖ Disadvantages

- **Focus on new hires.** The most important disadvantage of models based on withholding tax diversion is that the funding mechanism is built on the notion of employment creation and revenue generation is based solely on new hires. (However, withholding tax diversion based on new hires *can* be used to generate a pool of money for incumbent worker training, as demonstrated by the Iowa program.)

- **Risk.** Where the state or community colleges issues the bonds, they could potentially bear the risk of repayment should the company due to make the income tax withholding payments close, go bankrupt or move out of state. But there are methods to reduce or eliminate the risk, which each state has put in place.

- **Cost.** There are costs associated with debt financing that other methods do not have. These include the costs of the professionals (investment bankers, bond brokers, etc.) for issuing bonds; costs of commercial banks who handle bond proceeds; cost of performing due diligence on firms to assess their ability to make required payments. There is also the cost of the interest on the bonds.

- **Little ability to tie funding to performance.** Unlike some of the other funding mechanisms reviewed it would be difficult with this one to tie funding to performance outcomes.

- **Administrative complexity.** Bond-financed, withholding tax diversion mechanisms are complex compared to other mechanisms.

- **Not counter-cyclical.** The same analysis applies to withholding tax diversion as to UI tax financing, as described in the previous section.

TAX CREDIT PROGRAM
ADMINISTERED BY THE COMMUNITY COLLEGES

Definition

This funding mechanism offers tax credits to businesses that provide their employees training according to a plan developed in concert with and approved by the community college system.

State Models

Only one state, Georgia, seems to have a tax credit program that is operated through the community college system, although other states have tax credits for training. [3]

How the Program Works

The Georgia program provides businesses with an income tax credit against that state's income tax for employees who need to have their skills upgraded to retain employment. The credit is worth half the direct cost of training up to the maximum of $500 per person per year per program. In total, the credit cannot represent more than half the company's income tax liability for a year.

If a firm wants to apply for the program, it is required to carefully document why the training is needed; including what skills (by individual worker) will be upgraded. A detailed training plan must also be developed that describes the training objectives and the qualifications of the instructors. This training plan must be submitted to and approved by the Vice President for Economic Development at the local technical college. The technical college also is responsible for verifying the company's eligibility for the program. To provide the training, the company may use its own internal training staff, a private provider, or the technical colleges.

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[3] It should be noted that tax credit programs, especially the federal job training tax credit models, have been criticized as ineffective. There are two main criticisms. One is that there is usually no detailed training plan required, and hence the tax credits usually serve simply as a wage subsidy. The other is that it is the fiscal department of the firm that applies for and observes the financial benefit of the program; the operations managers and supervisors and the human resources staff are largely unconnected to the tax credit. And the employees whose hiring generated the tax credit are almost certainly unaware of the connection between it and any job-associated training they may get. Neither seem to be true in the case of the Georgia model.

At the conclusion of training, the company submits a form to the technical college that includes details such as the list of participants, their social security numbers, and training outcomes by participant. Before approving the completion form, the technical college verifies that workers have obtained new skills through a formal assessment. Firms cannot collect the tax credit until approved by the college.

Advantages and Disadvantages of the Funding Mechanism

❖ Advantages of a Community College-Administered Tax Credit

- **Develops colleges' technical assistance capacity and forges strong relationships between employers and the colleges.** The principal advantage of Georgia's tax credit model is that it places the technical colleges in the position of providing technical assistance to firms in the design of their training programs. As such, it allows the state to set policy goals for the use of the foregone taxes and it forges strong working relationships between employers and colleges. The intimate knowledge colleges gain from working with firms on this program can translate into other kinds of partnerships, including increased contract training.

- **Individual firm buy-in:** This funding mechanism is also directly linked to the individual customer firm, ensuring its commitment to the training project.

- **Increasing private investment in training:** The tax credit is likely to increase the amount of investment firms make in training since their dollars are "matched" by the state.

- **Equitable distribution of costs:** The design of Georgia's program ensures that the cost of training is shared between the firm and the public sector. This has the advantage of making training more affordable to small firms and encouraging firms to engage in socially desirable behavior such as retraining workers rather than laying them off. At the same time, it mitigates against firms abusing the system and somewhat inoculates the program against the political charge of "corporate welfare". The program can be designed to share costs however a state sees fit by adjusting the amount of the credit.

❖ Disadvantages of a Community College-Administered Tax Credit.

- **Bias toward larger firms:** Because the company is "fronting" the costs for the program, it may not be attractive to smaller firms that cannot afford to do so. The Georgia program so far has been used mainly by larger firms.

- **Administrative burden for community colleges:** Community colleges may feel that the administrative burdens of the program are a distraction from their core mission.

- **Too much red tape for firms:** North Carolina's tax credit program originally required community college sign-off on the training plan but firms found the procedure too cumbersome. Any program using this mechanism would have to ensure that it is firm friendly.

BALANCING CREDIT AND NON-CREDIT FTE REIMBURSEMENT

Definition

This is a policy change that creates greater parity—and, sometimes even equality—in a state's reimbursement of credit and non-credit courses. As such, it makes available a vast new pool of resources for employer-focused training. One way some states have further "targeted" the use of these resources is by limiting FTE reimbursement to "approved" courses. A useful accompanying policy change that states have implemented is one that makes it easier to get credit for workplace-based courses.

State Models

There are a multiplicity of FTE reimbursement practices around the country, including the fact that states reimburse both credit and non-credit at very different rates. Many states provide no reimbursement for non-credit courses. However, that is changing as states move to develop well-articulated systems of lifelong learning. Among states with interesting programs in this regard are North Carolina, Texas, Georgia, and Colorado.

How the Program Works

The North Carolina Occupational Continuing Education (OCE) Program is particularly interesting. Not only does the program provide community colleges with FTE reimbursement for approved non-credit courses, but employers as well as individual students can be the customer. In fact, employers arrange 60 percent of OCE training. This can happen in two ways, either employers can send one or more of their workers to an approved course at a community college or the employer can arrange to have the

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community college develop a customized training program that is delivered at the workplace.

When the employer is the customer, the company pays the community college an upfront fee of $50-65 per employee per course. Every semester the community college then submits to the state the number of FTEs it has generated through the OCE program for reimbursement. Each community college has a certain number of allotted FTEs based on the number it generated the previous year. This feature of the reimbursement mechanism provides incentives to the colleges to engage in industry-focused training since the number of students generated in one year affects its FTE allotment for the next.

In a variation on this theme, in 1994 Texas made an about face in its stance on reimbursing non-credit courses. Until then, all non-credit programs, including industry-focused training, were offered on a fee-for-service basis. Since the new legislation, Texas provides full FTE reimbursement for approved certain courses. Colleges are also reimbursed for the development work involved in developing customized programs. The move to full FTE reimbursement has apparently significantly increased the community colleges' role in economic development.

Georgia also is taking a fresh look at how to better link its various sites and programs of learning. Two features of its approach are worth mention: First, Georgia has developed a category of "credential" or "certificate" programs within its technical college system that are funded by the state. These programs have been developed in response to the needs of business in the state and were designed with considerable business input. Second, this support includes making Georgia's HOPE scholarship program available to workers who want to take these courses. (These courses would not qualify for academic credit but provide workers with skill-specific training).

Finally, Colorado has made real strides in dealing with the other side of the credit-non-credit equation. That is, the community college system has made it significantly easier for workplace-based courses to be approved for credit (and, therefore, FTE reimbursement). The serious advantage of this approach is that students can apply these credits to academic degree programs within the colleges.

Advantages and Disadvantages of the Funding Mechanism

❖ Advantages of Balancing Credit and Non-Credit FTE Reimbursement

- **Provides a critical link between workplace-based and school-based skill acquisition:** A central advantage of these approaches is that they are a major step toward a real system of lifelong learning. Such a system is based on the recognition that today's economy requires workers to do much of their learning after they leave the K-12 system. And, in general, these workers need to earn while they learn. Thus skill acquisition will likely take place in pieces over time and at various sites, importantly including

workplaces. For such a system to work, there must be ways of linking these sites so that skill acquired one place is credited in the next. FTE reimbursement is one step. It provides workplace-based courses with formal "recognition" by the education system. Inversely it permits employer-focused training to be delivered at a college and reimbursed.

- **Recognizes the unique role of the community college system in bridging the goals of workforce and economic development:** By using the formal mechanism of FTE reimbursement to promote industry-focused training, a state is recognizing the unique role community colleges have to play in a well-articulated system of workforce and economic development. This gives real meaning to the overused and under-realized term of "life-long learning".

- **Provides incentives for community colleges to increase their offerings of industry-focused training:** Clearly, if they are paid for this kind of training, community colleges are likely to increase their offerings.

- **Can help breakdown the walls between the "academic" and the "shadow" college:** By giving what Jim Jacobs calls the "shadow colleges"[4] within community colleges more equal status with the academic side of the institution, this funding mechanism may help bring together these two missions of a college in a way that is mutually supportive.

❖ **Disadvantages of Balancing Credit and Non-Credit FTE Reimbursement**

- **Could divert limited education dollars away from academic education and toward firm specific training:** Unless states set aside additional funds for this program, it could divert limited dollars from other educational priorities. On the other hand, it may provide students better labor market signals and therefore make their choice of courses better informed.

- **Does not specifically require an employer match:** An FTE reimbursement scheme for industry-focused courses does not necessarily involve a financial contribution by firms. However, a program could be designed so that firms are required to contribute either directly or indirectly. An example of ensuring indirect firm

[4] Jim Jacobs, Associate Vice President of Macomb Community College in Michigan uses the term "shadow college" to describe the functions of a community college, often located in a separate department, that are focused on economic development and employer-focused training.

support would be if such a scheme used monies raised through a special UI tax for FTE reimbursement. An example of direct support would be if companies had to pay part of the FTE reimbursement themselves. (The disadvantage of this latter idea is that it would make small firms less likely to be able to afford the program and make it less likely that low skill workers would be trained.)

- **Does not necessarily support the "development" costs of new courses:** The mechanism does not inherently provide support to colleges for the work of customizing programs.

- **Does not support technical assistance to firms:** Because this is a reimbursement for training, it would be hard for an FTE reimbursement program to be used to support technical assistance to firms.

INCENTIVE GRANTS TO COMMMUNITY COLLEGES

Definition

Some states have developed schemes that provide incentives for community colleges to increase the amount of fee-for-service training they do with firms.

State Models

Ohio has an incentive program in place and the Massachusetts legislature is currently considering one.

In Ohio, the community college system receives $19 million from the legislature each year for their "Jobs Challenge" program. The target of the program is small and mid-sized firms. The funds are used for two purposes:

- Two million is split among the 53 community colleges for operating expenses. (This is about $50-60,000 per year.) The rationale for these monies is that if the overhead of the colleges can be reduced, they will be better able to serve smaller firms. To access the funds, each college must submit a plan for how they will work with smaller firms (under 100 employees), what they are currently doing, and how they expect to improve their performance.

- The rest of the fund is reserved as an incentive pool that is split among the colleges at the end of each fiscal year based on the percentage of the system's total contract training that campus performed.

In Massachusetts, the legislature is considering a model very similar to Ohio's. Grants of $50,000 per campus would be provided to each of the state's 15 community colleges to hire an employer recruitment officer. The purpose of this provision is to provide each school with the capacity to work closely with businesses in their area.

In addition, for every one thousand dollars a community college raises in revenue from contract training or from offering workforce development courses, the Commonwealth would provide a grant of two hundred dollars. Three kinds of training would qualify for the match: a) contracts with companies to provide job training for their employees; b) tuition and fees paid by students enrolled in not-for-credit vocationally-oriented courses, and c) tuition and fees paid by employers on behalf of their employees enrolled in not-for-credit vocationally-oriented courses. Funds for both parts of the program would come from a general appropriation by the legislature.

Advantages and Disadvantages of Incentive Programs

❖ Advantages of Incentive Programs

- **Entrepreneurial incentives:** This funding mechanism clearly provides incentives for entrepreneurial behavior on the part of community colleges that will have the effect of increasing both the revenues to the colleges and the amount of training workers in the community receive. Colleges are given incentives to develop in-depth and on-going relationships with firms.

- **Substantial commitment by employers:** Another advantage of these programs is that they require a substantial commitment from the private sector. In both state models, the primary financial burden is borne by the firm. As such, incentive programs ensure that the firm will be fully engaged.

- **Administrative simplicity:** Incentive programs can require very little red tape and be extremely simple to administer.

- **Funds technical assistance:** Both state models built in some staff support for colleges to work with firms, though in each the amount of support is extremely modest.

- **Slow ramp-up:** Although the amount required to fund the program will presumably grow as colleges do more outreach and more firms

participate, program growth will occur slowly over time. This could be of real political advantage, since increased demand means increased use by the private sector—and, most likely, increased political support.

❖ Disadvantages of Incentive Programs

- **Bias toward larger firms:** Despite Ohio's concern with small and mid-sized businesses, the danger of any funding mechanism that is based on fee-for-service training is its bias in favor of large firms. This is for two reasons: a) larger firms are more likely to be able pay for the cost of training, and b) it is considerably more cost-effective for a college to work with a large firm than with a smaller one.

- **Bias toward firm-specific training:** There is a bias toward firm-specific training to the extent to which the cost of training is principally shouldered by the firm.

- **General revenue funding:** Although most of the monies are from the private sector, the public funds probably have to come from general revenues. Politically, competition for these funds is always fierce.

OTHER FUNDING SOURCES AND MECHANISMS

○ Fee-for-Service

Most community colleges do some industry-focused fee-for-service training. A few have turned these programs into major profit centers for the colleges. The advantages of fee-for-service is that it ensures firm buy-in—since the firm is paying the bill; encourages entrepreneurial behavior on the part of colleges; creates incentives for colleges to develop long-term relationships with firms so that they can get return business; and brings additional funds into colleges without draining in-house resources.

The greatest disadvantage to this approach is that it effectively places the community colleges in the *private* sector—and, arguably, that is the last place they belong. Forcing colleges to behave like private firms in fact eliminates their greatest strength as institutions, which is the role they can play in effecting *public* goals of economic and workforce development. Other disadvantages to fee-for-service programming are a) that it privileges big firms since they can afford the cost of training, and b) if firms are paying the

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whole cost, training is more likely to be narrowly firm specific. Finally, there is no support for colleges to develop a technical assistance capacity.

○ Federal Funding Sources

There are several federal sources of funds for employer-focused training; these can be grouped into two broad categories: formula-based and competitive funding streams. Some of the major sources of federal monies include: the Workforce Investment Act (USDOL), Welfare-to-Work (USDOL), Temporary Assistance to Needy Families (HHS), and Community Development Block Grants (HUD). Some of these funding streams are relatively new; others are not. But there are three points worth considering about federal sources. First, increasingly these funds can be used for workplace-based training. This is a major change in federal policy. Second, however, few program operators who currently receive these monies know how to develop employer-focused training program and so the promise of this turn in federal policy is not being realized. This vacuum could provide community colleges with a major opportunity to take the lead in developing such programs. Finally, many of these funding sources make sizeable grants and/or could be a serious on-going source of revenue. But in order for community colleges to access these funds on a regular basis they would have to develop a strategy to do so. ED>Net could serve as a resource in this regard.

○ Use Tax Diversion

"Use tax diversion" refers to a financing method that has been used in Santa Clarita California to direct funding to College of the Canyons. It diverts to the community college taxes that would otherwise be used by the local government.

"Use taxes" represent a 1% share of California "sales and use tax" and are paid on the purchase of certain kinds of property and equipment. Normally the tax goes to a pool for county and municipal uses. In the case of use tax diversion, companies can request that the qualifying taxes they have paid be directed to a special purpose, such as worker training by a community college.

However, it would appear that use tax diversion is not a viable way to generate a reliable, stable funding stream for community college's economic development work. The most important of the reasons is that this mechanism can only be used in cases where a company—presumably a relatively large company—is making substantial capital purchases. Iowa, which has a similar diversion program in place, has found that it is virtually never utilized.

○ Restitution Funds

Restitution monies refer to funds that are being provided to a state pursuant to legal settlements, the principal such source probably being the tobacco restitution funds. While the research done for this report did not identify any state currently planning to use tobacco restitution monies for community college economic development work, it is a source that could be considered.

○ Corporate Gifts

Many community colleges are the beneficiaries of major corporate gifts, often in the form of capital contributions (buildings, equipment, etc.). Such gifts are usually the product of a long-term relationship between the firm and the college. In some sense, they represent the opposite of "corporate welfare", that is, they are a private investment in a public institution. The disadvantages to looking to such gifts to support industry-focused training are the following: These gifts do not represent on on-going funding stream; the benefits are usually restricted; the firm may assert excessive "ownership" over the project; because they usually take the form of capital donations, these gifts can become quickly outdated and even become a financial burden to the college.

○ Other Fund Raising

The only point to make here is that our survey clearly revealed that the community colleges most deeply immersed in economic development activities often are highly entrepreneurial in their approach to funding. In addition to the sources we just named, they are actively accessing sources such as private foundations.

○ Loans

Connecticut has a loan program for firms that want to invest in training. At the beginning, there seemed to be relatively little use of the fund but more recently there has been increased interest on the part of firms.

Section Two

EFFECTIVE BUSINESS INVOLVEMENT

One of the questions this study was intended to answer is: which financing mechanisms most tightly link business customers to the program. Extrapolating from our survey research, the following conclusions can be drawn:

- **Employers feel greatest ownership of a program and are most likely to ensure that the program genuinely conforms to their business needs when they perceive themselves to have a direct *financial* stake in it.**

  Also, the more direct the link between payment by an *individual* firm and the training program, the greater their involvement. As such, funding mechanisms that rely entirely on funding from employers score highest on this scale. Fee-for-service financing and corporate gifts therefore engage firms most of all. Unemployment Insurance training tax financing engages firms and unions as a class but not necessarily any individual firm. The principal conclusion of this finding is that programs should require some financial commitment by firms, regardless of the funding source.

- **At the same time, if programs are going to effectively involve firms, they need to be designed to meet the needs of smaller companies as well as large one—and small firms are limited in the financial contribution they can make.**

  Some financing mechanisms have a built in bias toward large firms. Generally these are mechanisms where the individual firm pays the cost of the program in total or "up front"(even if they are later reimbursed) or where the firm is required to invest a great deal of time or energy. Clearly this first point is somewhat at odds with the finding that firms are most invested in a program when they are the funding source. Thus fee-for-service programs are prejudiced against small firms (both because they cannot afford the cost and because small firm programs are not cost-effective for community colleges).

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There are several ways states resolve the tension between firm investment on the one hand and the constraints of small firms on the other. One way is simply by ensuring that there is some firm investment but keeping the public subsidy high enough so that small firms can participate. Alternatively, the program can have a sliding scale of some kind based on firm size. Also, as noted throughout this report, smaller firms are less likely to have either the time or expertise larger firms may. As such, they need more support in the development and implementation of the program. Therefore program designs and funding structures that support technical assistance are critical to being able to serve small companies.

- **Even when the actual cost of the program is shared or shouldered entirely by the public sector, financing mechanisms that involve the appearance of payment by the firm are likely to increase a sense of ownership.**

  This is true, for example, in the case of withholding tax diversion programs where the firm pays off the bond, but in effect gets training for "free" because in the end the cost is born by the state in the form of foregone taxes.

- **Probably the most important action community colleges can take to achieve effective business involvement is to develop *long-term* relationships with individual businesses.**

  This point was reiterated by virtually everyone interviewed for this study. In this regard, the actual funding source is less important as a driver than is the way in which the program is structured. For example, withholding tax diversion programs administered by community colleges foster long-term relationships between firms and colleges; but withholding tax diversion schemes unconnected to the community college system (as in North Dakota) have no such impact. Similarly, Georgia's tax credit program administered by the community colleges has built serious connections between technical colleges and individual employers; most tax credit schemes would not. The key issue is whether or not the program is *structured* to give the community colleges control over the funding and a role in program development and design. It is also critical that there is stability in the financing mechanism.

- **The most effective programs are those that create incentives for changes in the behavior of *both* firms *and* community colleges.**

  It is not only important to create incentives for businesses to want to work with community colleges but also for community colleges to want to work with

businesses. Some financing mechanisms (such as fee-for-service) *require* entrepreneurial behavior on the part of community colleges but do not create incentives for colleges to become more entrepreneurial. Others do. These include: withholding tax diversion programs, where community colleges sell the bonds; tax credit programs administered by community colleges (where community colleges get some percentage of each "deal"); and schemes where colleges get full FTE reimbursement for the development of employer-focused training programs.

- **Some funding sources limit the kinds of workers than can be served and therefore the range of an employer's needs that the program can meet.**

Programs that are most business customer-friendly are the ones equipped to meet the broadest range of their training needs. For example, funding sources that are limited to new hires (some withholding tax diversion programs) are less useful to the employer community than those than can also be utilized to train incumbent workers. General revenues are the most flexible source since they can be used for any population. Other funding sources can be made more or less flexible based on the design of the program, but most dictate some restriction on who can be served. Of the five funding mechanisms principally reviewed, tax credits are probably the most restrictive in this regard, followed by withholding tax credits, unless these payments are used to form a pool of flexible funds, such as in the case of Iowa.

- **Even if a program is fully publicly subsidized; if it is too bureaucratic firms will be discouraged from using it.**

Employers always approach public programs with great suspicion and frequently with the conviction that they are more trouble than they are worth. Sometimes they are right. Funding mechanisms that force firms to fill out endless paperwork or wait for months for approval do not make firms want to participate in the program.

- **Similarly, programs where the balance between public policy goals and firm needs is too heavily weighted on the public side discourage firm participation.**

Public programs must have public goals, however if a program or funding source fails to also meet firm needs, employers simply will not participate.

- **Working with networks of firms based on industry or sectoral strategies assists with economies of scale, impact and sustainability.**

  Network strategies need to be based on a careful analysis of a local labor market and effective business participation. While there are challenges to creating successful networking strategies with firms, the payoffs in impact can be great.

Section Three

PERFORMANCE MEASURES

As indicated in the introduction, this study's review of performance measurement was intended to be cursory and preliminary. ED>Net is undertaking a separate project on performance measurement. Therefore, our survey focused primarily on methodological approaches and yielded the following general observations:

- There are five principal types of performance measures:

  - Activity measures (e.g., number of firms served, workers training, training hours)
  - Economic impact on individuals (e.g., wage increases, retention)
  - Performance impact on individuals (e.g., skills learned)
  - Economic impact on a firm (e.g., productivity or quality improvements, increased revenue)
  - Impact on the economy (e.g., employment growth, increased tax revenues)

  In addition, it would seem to be useful to determine whether or not publicly subsidized employer-focused training programs increase firms' own investments in training their workforce.

- Across the country, most community college employer-focused training programs use only activity measures, complemented in some cases by customer satisfaction measures (including return business) as proxies for the impact on firms.

- The two primary reasons given for not measuring business impacts were the difficulty of disaggregating the impact of training from other changes affecting a firm and the desire to avoid burdening the firms with collecting and reporting data.

- Many of the impacts on a firm from training can only be measured over a longer period of time as employees utilize new skills in the workplace. This implies – and can reinforce – a longer-term relationship between the employer and the training provider.

- A handful of state-funded employer-focused training programs (not necessarily community college based) do attempt to measure economic impacts on workers and firms and, in at least one case, on the economy as a whole.

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California's ETP may be the most sophisticated of these efforts. First, the ETP uses performance-based funding to ensure retention. Except in rare circumstances, companies are only reimbursed for training costs of workers who are retained for at least 90 days after completion of the program. Second, the ETP has engaged an independent third party evaluator to conduct a quantitative analysis of the economic impact of the program on individuals and on the economy as a whole. This analysis uses UI wage records as its data source. These data permit the ETP to follow industry trends and track the movement of trainees from one company and industry to another. It provides for measurement of employment stability, length of employment cost of unemployment to the state, and the impact of training on wages. Third, the ETP has recently requested that this same independent evaluator measure economic impact on individual firms. [5]

The Texas Skills Development Fund takes a more modest approach. The community colleges conduct qualitative assessments of whether or not project objectives were met, including firm objectives, and trainee wages are tracked at three months, six months, and twelve months after the project and after three years.

- Numbers of employer-focused programs do performance-based funding to drive quality.

  Companies and/or training providers do performance-based funding to drive quality. Companies and/or training providers are reimbursed only for positive outcomes. In several cases, the measure may be skill acquisition by the worker. For example, companies utilizing Georgia's tax credit program are approved for the credit only after the community college administering the program conducts an assessment of whether trainees actually acquired the skills the program was designed to teach.

- Spurred by the implementation of the Workforce Investment Act, states are increasingly attempting to develop common measures and data sources across their workforce development programs.

  UI wage record data, mandated by WIA, forms the basis for these efforts.

- In analyzing models of individual performance and business impacts, it may be useful for the California community college system to look outside the world of public workforce development programs.

  Two possible benchmarking models are NIST's Manufacturing Extension Partnership and the American Society for Training and Development's Benchmarking Forum.

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[5] A forthcoming evaluation of ETP will report on the impact on firms. The measure is firm growth of ETP client companies in terms of total employees and total payroll compared to a control group.

Section Four

RECOMMENDATIONS

I.
General Conclusions

The recommendations detailed below reflect the general conclusions of this study that were outlined in the Introduction.

- States that are placing major emphasis on workforce development and economic development are investing in the capacity of their community college system.
- The funding source and program structure must be driven by policy objectives.
- A series of isolated programs is unable to have real impact.
- It no longer makes sense to separate economic development and workforce development. An integrated system should support both the competitive goals of firms and the lifelong learning needs of workers. Such a system must:
  - Be able to serve a wide range of workers.
  - Be responsive to the needs and constraints of firms.
  - Be committed to the principle of lifelong learning.
  - Fairly align program costs and benefits.
- The financing mechanism should ensure program impact and stability.
- Public programs should be accountable to their customers and investors.
- Programs must be tailored to the state specific context.

II.
Framing Assumptions

In addition, the framing assumptions underlying our recommendations include two related principles and one strategic goal.

A. Principles

- **A "portfolio" of programs is most effective in developing a strategic approach to employer-focused training**. States that are most aggressive about developing programs that serve the needs of both firms

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and workers tend to have a "portfolio" of programs. This is because no one program can effectively serve all customers or meet all policy goals.

- **Any new program should complement those already in place in California.** California is already making a substantial investment in employer-focused workforce development. The two most important programs are the programs of the Employment Training Panel—that this year will have more than $100 million to invest—and the ED>Net programs. New programs should plug holes. The recommendations presented here are intended to do just that. But before ED>Net and the community colleges finalize their recommendations, it would be wise to do a complete audit of existing programs.

B. Strategic Goal

- The strategic goal of these recommendations is to permit California to take maximum advantage of its community colleges as it puts together an integrated system of workforce and economic development.

III. Recommendations

Three kinds of recommendations are offered. The first are essentially recommendations about the program goals. These are offered for two reasons. First, because the findings of this study suggested a set of program objectives—consistent with ED>Net's strategic plan—that appeared to fill in some of the gaps in California's current set of employer-focused training programs. Taken together, it is hoped they would form a strategic whole. Second and equally important, however, the first recommendation is presented as an example of the kind of integrated approach California could take to new program development.

The second set of recommendations then proposes some financing mechanisms to meet these objectives. Again, the purpose is both specific and general. The same approach could be taken to a different set of policy goals. In fact, Appendix C, provides a matrix evaluating each funding criterion against the list of policy filters detailed in Section One. The final set of recommendations relates to performance measures, rather than financing mechanisms.

A. Recommended Policy Goals

- **Create a program or set of programs with the explicit objective of increasing the ability of the California community college system to deliver employer-focused workforce development programs by creating targeted funding for this purpose.**

  The largest employer-focused training program in California, the Employment Training Panel, does not have the development of community college capacity as one of its goals. Many states that have programs, such as the ETP, in which the community colleges are simply one among many vendors, are choosing to complement these programs with one more programs based within the community colleges. This is because of a growing national recognition of the unique contributions community colleges can make to a public system linking workforce and economic development.

- **Develop a mechanism to link the goals of economic development and lifelong learning.**

  One of the results of the ETP's separation from the community college system, is that is does not help build an overall lifelong learning system for California. This system is needed both by individuals and employers.

- **Provide funding to community colleges for technical assistance to firms and for the work of customizing training programs.**

  As suggested earlier in this report, for training to be responsive to employer needs, it must be based on a training plan that is linked to the firm or industry's competitive strategy and it must be customized. But for community colleges to be able to offer firms technical assistance or customized training they must be compensated for these efforts.

- **Provide incentives for systemic behavioral change by *both* firms *and* community colleges that results in more effective workforce and economic development.**

  One role public policy can play is to create incentives that, in effect, improve the functioning of the training "marketplace". On the employer side, this means incentives that stimulate firms to invest in the training of their workers; on the community college side, this means incentives for the colleges to "invest" their time and resources in employer-responsive training.

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B. Financing Mechanism Recommendations

One of the general conclusions of this study is that the financing mechanism used to fund employer-focused training is less important in achieving any particular policy goal than the way in which the program is designed. The recommendations that follow will in general reflect this finding. However, this study did lead us to a more general conclusion.

- ### General Recommendation

Of all the funding sources reviewed, the Unemployment Insurance (UI) training tax is the funding source that meets the greatest number of public policy and efficiency criteria and thus should be the "first choice" financing mechanism for employer-focused training.

The UI training tax has numbers of advantages including impact, stability, ability to serve smaller firms, the employer community as the source of revenues and the fact that funds do not drain the state's general revenues. It is as flexible in the range of purposes to which it can be put as general revenues, but has the advantage of more directly engaging the employer community.

This finding complicated the study's recommendations since the Unemployment Insurance training tax is already the financing mechanism for California's largest employer-focused training program. Therefore the first specific recommendation is not actually a new funding source but a new use of an existing one. The same is true of the third recommendation. The second recommendation is for a new financing source.

- ### Specific Recommendations

1. Consider creating a special program within the Employment Training Panel based on the community college system.

Given the flexibility of the funding, this program could be structured to meet *all* the recommended policy objectives. To do so, however, it would have to be something other than a simple subsidy for training. There are virtually unlimited possibilities for accomplishing this; some ideas include: a) the program could expand ED>Net's network of Performance Consultants, providing every community college with a staff of one or more consultants trained to help employers assess their needs and develop a training plan; b) the program could reimburse colleges for the development work in customizing courses; or c) a program could be created in which firms are required to develop

detailed training plans in concert with community colleges with the guidance of "Workplace Training Consultants" located at the colleges. Community colleges would not necessarily need to be preferred providers, but could be training brokers, allowing firms to select the provider they deem best meets their needs. The result of this type of structure would be to build long-term relationships between each community college and the businesses in its area. And entrepreneurial colleges would undoubtedly find that employers increasingly chose them to be their training provider.

2. Consider implementing a new financing mechanism that would: 1) foster systemic behavioral change, and 2) support system-wide technical assistance capacity within community colleges.

Building strategic cohesion among various economic development efforts of California community colleges is an important goal, which could be advanced by utilizing a financing mechanism that systemically fosters behavioral change in *both* firms *and* community colleges. This could be accomplished by using a funding mechanism that fosters employer-responsive behavior on the part of community colleges and in which employers feel "ownership" thereby creating incentives for firms to support continuous workplace learning. The withholding tax diversion mechanism and the tax credit *administered by community colleges* fit this description. In addition, either source can be used to create a pool of funds to support a system-wide technical assistance capacity. And, although withholding tax diversion is based on new hires, the revenues raised could, in fact, be used to create a pool of funds for incumbent worker training, such as is done in Iowa.

It is critical that whether withholding tax diversion or tax credits is used, the program be structured very tightly, with clear socio-economic criteria and other program design features that will advance public economic development goals as well as meet employers' needs. The detailed program descriptions in Appendix A should be reviewed carefully to determine which program structural features will advance these goals.

In the case of either mechanism, because the amount of revenues generated by any community college would depend on the number of projects it developed, the program would have built-in incentives for entrepreneurial behavior on the part of colleges. Because of the training "subsidy" involved, employers also would have incentives to participate in the program.

In addition, it would be highly desirable to use revenues raised through either mechanism to create or improve upon the community colleges' technical assistance capacity. Businesses know what their business problems are; they are not good at turning business problems into training solutions. Experienced workplace training consultants who are able to do so are a critical ingredient of successful employer-focused training programs. There are various approaches California could take to enhancing community colleges' technical assistance consulting capacity, including using funds raised through the financing mechanism to support such staff at each community college.

- **Using a withholding tax diversion mechanism administered by the community colleges.**

  This program would accomplish several of the recommended policy goals: Community colleges would have additional funds to provide employer-focused training and they would be placed in the position of providing firms technical assistance in shaping the program. Tax diversion mechanisms also tend to forge long-term relationships between firms and community colleges and to create incentives for community colleges to engage in employer-responsive, entrepreneurial behavior. In the case of the Iowa and Missouri programs, this funding mechanism has the benefit of giving community colleges considerable control over the amount of funds raised since they are responsible for selling the bonds. Other benefits of the financing mechanism include the fact that it can generate fairly substantial revenues and can be used to serve small firms as well as large. In the three states that base their withholding tax diversion programs in the community colleges, the relationships formed between firms and community colleges in the training of new hires provides the basis for on-going partnerships.

  In general, the most important disadvantage of withholding tax diversion financing mechanisms is that the revenue is generated from new hires. In the case of California, however, there may be a more important political disadvantage; that is, the ETP can and does already provide training services to employers that are newly locating or expanding employment in California.

- **Using tax credits for training administered by the community colleges.**

  Tax credits are not limited to new hires; they could also be used to provide training to incumbent workers. Small firms, as well as large firms, can be served.

  Georgia's tax credit program is potential model. The beauty of Georgia's tax credit program administered by the community colleges is a) it drives a close working relationship between firms and colleges, b) it supports the development of a sophisticated technical assistance capacity within the community colleges; and c) it uses community colleges to play the crucial role of ensuring public benefit from the program

  In a model such as this, firms receive a tax credit up to some limit when they invest in training programs for their workers. Community colleges could receive some portion of the monies.

  Georgia's tax credit program places community colleges squarely in the consultancy role. The colleges may or may not actually deliver the training, but they always work with firms to design the training program and they help ensure a quality product. This approach has the additional benefit of encouraging firms to turn to the community colleges for their other (non-subsidized) training needs. As such, it builds the kind of long term relationships between firms and colleges that are the key to successful economic development programs.

  There a several general disadvantages of tax credit programs, reviewed in Section One. However, the most important disadvantage from California's perspective is again the political and practical fact that the ETP funds already provide this kind of training.

3. Consider policies to balance credit and non-credit FTE reimbursement and to make it easier to provide credit for workplace-based training programs.

Numbers of states are moving to reimburse non-credit courses at the same rate as credit courses. Doing so provides real incentives for community colleges to develop employer-responsive training programs both at the worksite and in the college setting. To ensure

that they are reimbursing real training, some states have implemented approval mechanisms for the courses that are funded. Full FTE reimbursement for approved non-credit courses has other important benefits as well. States that are trying to build comprehensive systems of lifelong learning see this as an important step in linking workplace-based and school-based learning.

A complementary approach being implemented in several states is to make it easier to provide credit for training programs sited at workplaces. This allows workplace programs to articulate with other college courses.

California should consider providing greater balance (if not full parity) in its reimbursement for credit and non-credit courses. It should also look at policies that would facilitate the process of obtaining credit for workplace-based training.

In terms of the first of these goals, the North Carolina Occupational Continuing Education model may be the most interesting. This program not only provides the community colleges with FTE reimbursement for approved non-credit courses, but employers as well as individual students can be customers.

C. Performance Measurement Recommendations

In developing a performance measurement system for its economic development programs, the California community colleges should consider the following principles:

- The system should be simple to use and easy to understand.
- Ideally the community college system would be well articulated with the performance measurement system of other key workforce development players (such as the Employment Training Panel and the Workforce Investment Act). As a useful starting point, all three systems already use UI wage record data, which is probably the best source for evaluating the impacts of programs on workers.
- The system should at minimum measure economic impact on individuals.
- Quantitative measurement systems of the economic impact of employee training on firms have difficulties in disaggregating training effects from those of other variables. However, efforts to develop these measures are being pursued and should continue to be refined. At the very least quantitative and qualitative measures should be established on a project-by-project basis. The project can establish performance measures based on the goals being sought

by the firm at the beginning of the program. This is useful to the firm in clarifying the desired results and analyzing the subsequent outcomes.

APPENDICES

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APPENDIX A

Withholding Tax Diversion Programs

This appendix provides greater detail on the withholding tax diversion programs currently being implemented by four states: Iowa, Missouri, Kansas, and North Dakota. The basic model uses debt financing through the sale of bonds to generate the funds used for employee training. The debt is repaid through diversion of employee income tax payments withheld by the firm. However, there are variations on this theme that are unique to each state that has adopted it. Among them: a) instead of bonds, "certificates" may be sold (Missouri) or b) instead of public debt, commercial (bank) loans may be used (North Dakota). North Dakota has a new tax diversion program that does not rely on any debt financing at all, but rather, relies on "self financing" by the firm.

A. Common Elements

The common elements running through all these models include:

1. Debt is the funding source to finance the training (except in a small component of North Dakota's program, which is called "self financing").

2. The maximum amount of money for each project is calculated by use of a formula that takes into consideration: the number of new jobs projected to be created; the projected wage rates and the associated projected income tax withholding amount to be generated over the next ten years by these new employees.

3. Employee income taxes withheld by the firm are the ostensible source of debt repayment, but in fact the state actually foregoes those tax receipts (up to the maximum allowed by the formula) through various mechanisms for "tax diversion". The end result is that the state is actually paying for the training by foregoing taxes, as compared to a General Revenue financing approach in which the state collects taxes and later disburses them through an appropriation.

4. These tax diversion programs are mainly used as "business attraction" programs.

5. All four programs are based on new job creation and are in most cases not used for training of existing workers. However, there are exceptions. Missouri allows a small number of existing workers to be part of the training project if they are

directly involved in the business expansion. And, more important, Iowa uses tax diversion as the way to create a funding pool for their incumbent worker training program.

B. Variations

The models vary in several ways including:

1. Incentives for creating "good jobs": Some states specify wage criteria within their formulas to allow a higher percentage of taxes to be diverted the higher the wages of the new jobs created.

2. Size of company: Some states make it a point to say that tax diversion programs are best or only suited to assisting large companies; other states are adamant that this mechanism works perfectly well for small firms, and note that the majority of their client firms are small. There appears to be no inherent reason for the program to work successfully for only either large or small firms. It can be structured to work for one, the other, or both. However, it would not be feasible to issues bonds for small firms one at a time. Bond issues would need to be grouped, as is done in states currently serving small firms through withholding tax diversion.

3. Who issues the debt instrument: In some cases the debt instrument is issued by the state economic development department (Kansas) and in some it is issued by the community college (Iowa and Missouri). It is important to note, however, that as California considers this financing mechanism, regardless of who issues the debt instrument in reality, either the community college or the state could conceptually issue either type of instrument.

4. Where bond proceed go: In some cases the proceeds go to the state: in some to the community college, and in some to the company. Since interest accumulates on the bond proceeds until they are used, different entities will receive the interest. Since the ultimate costs of the program are borne by the state in the form of reduced income tax revenues from wages and salaries earned by workers and withheld by employers, the net public cost of the program is reduced when interest on the bond proceeds go to the state.

5. Risk: In most cases the state or community college issues the bond, and so theoretically bears the risk of non-payment of withholding taxes, should the firm move away, close, or otherwise default. In North Dakota and Missouri the public does not bear the risk – the company does, albeit through different mechanisms. And in Iowa a special provision of the law puts the county in the position of ultimately bearing the risk, rather than the community college. In Kansas the state has a claim on the company's assets should it default in making tax payments.

6. Costs: Using bonds as the source of cash has significant associated costs, such as investment bankers, bond counsel, a commercial bank fees connected with funds disbursement for debt repayment. Missouri, which issues "certificates" that the company buys and North Dakota which relies on the company obtaining its own commercial loan, would have significantly lower costs associated with their debt instruments than with publicly traded bonds.

7. Whether debt shows on the company's books: In the bond schemes, the debt would not be on the company's financial statements. But in North Dakota, the loan would show as a liability on the company's financial statements. This is an aspect that would be unattractive to most companies. But if the state or community college issues the bond(s) and the company that benefits from the training is required to purchase the bond(s), the bond(s) would be carried on the company's financial statements as an interest-earning asset.

8. Eligible Trainees: While most of the withholding tax models only train new workers, there are two exceptions. Missouri allows a small number of existing workers to be part of the training project if they are directly involved in the business expansion. But more important, Iowa uses tax diversion as the way to create a funding pool for their incumbent workers training program.

C. State Models

1. Iowa

Program summary::

Iowa actually has two training programs operated by community colleges that are based on tax diversion and the sale of bonds. The first, the Industrial New Jobs Training Program (260E) goes back to 1983, making it the first of its kind in the nation. Under its mandate, Iowa's fifteen community colleges have the authority to sell debt instruments (bonds) to help newly locating firms or those that are expanding their employment in the state train new hires. These bonds are repaid by diverting a small percentage of the income withholding tax of the new employees. Only certain employers are eligible for the program, principally manufacturers and export service providers.

Iowa also uses withholding tax diversion to finance incumbent worker training (IWT) and is apparently the only state to do so. The authorizing legislation for the NJTF program created a second program "260F", through which income tax diversion is permitted for up to ten years after the original bond is paid off. Called the Workforce Development Fund, this program was implemented more recently. Its purpose is to provide funding for other kinds of employer-focused training, beyond new hires. As such, it supports an incumbent workers training

program, an apprenticeship program, a business network program (that encourages two or more employers to come together to meet their common training needs), and an innovative skills development program aimed emerging (particularly high technology) industries. The fund is capped at $10 million per year. Like the NJTP, all IWT programs funded through the Workforce Development Fund are operated by the community colleges; the other programs are operated out of the state's economic development department.

How the programs work:

a. **The Industrial New Jobs Training Program (260E)**: Interested companies approach a community college. Projected withholding taxes for new jobs are estimated based on a formula that allows 1.5% of for jobs paying under a set amount (currently $10.63 per hour) and 3% on higher paying jobs. The formula yields the maximum amount the project can be, after subtracting out the costs of issuing the bonds (Investment Bank, bond broker, etc).

The community college groups projects together and issues bonds one or two times a year through an investment banker. The proceeds of the bond issue are deposited in a bank and the community college is able to use the interest.

To repay the bonds, the company pays the allowable percentage of withholding taxes to the community college quarterly (the rest of withholding taxes are sent to the Department of Revenue), which the college then forwards to the bank. At the bank is a "payment agent" who pays off the bonds. Although legislation permits incremental property taxes from capital equipment expansion also to be used to retire the bond, this is rarely used any more.

Although the community colleges issue the bonds, under the way the Iowa law was constructed, they do not bear the risk of default if a company closes or moves away and stops making withholding tax payments. If a company should "default" in this manner, the Iowa law allows the community college to issue a "stand-by tax levy", which, in effect, puts the burden of risk on the county. Since the inception of the program there have been about 1100 projects and only 22 instances of a stand-by tax levy being issued.

The Iowa program serves small as well as large companies; most have 150 employees or fewer. Size of projects has ranged from approximately $43,000 to $1.5 million. The average is perhaps $300,000 to $500,000. The program is well known to Iowa companies. Respondents to this survey noted, "Companies almost have an entitlement to this benefit". It is estimated that 80% of companies that are expanding have used the program. But because the program is only for new hires and only a limited number of companies are expanding, less than 10% of the state's companies have used it. However,

Iowa views 260E as a business attraction program and judges it to be quite successful in this regard.

Companies participating in the 260E program are also eligible for a tax credit. However, respondents at one community college did not know if their client companies are using this tax credit or not. Obviously, the tax credit was not perceived as significant by this college.

Under NJTP the training is provided either by the community college, another vendor, or the firm itself, but the colleges administer the program. All training provided by the community colleges is non-credit. There is interest in moving to credit courses because employees – and therefore their employers – understand the value of receiving credit.

The NJTP seems to promote synergy between the business services and academic parts of the college. Instructors come from the academic side of the community colleges (not from their business and industry programs). If they are at "full load" they get extra pay for this work; it they are "under load", it is considered part of their regular contract and Deans tend to make sure faculty are assigned to NJTP projects to bring in revenue.

The structure of the Iowa program provides strong entrepreneurial incentives for community colleges. The more bonds they sell, the more funds are available for worker training (both for new hires and incumbent workers). As such, the program is "big business" for the community colleges. For example, Des Moines Community College has issued $70 million in bonds since 1983. They receive an administrative fee for each project and also price the cost of training with a markup over their costs.

b. **The Workforce Development Fund:** As described above, monies for the fund are also from the withholding diversions of the projects funded under the New Jobs Training Program. After the debt on the NJTP bonds has been fully retired, the legislature has authorized another ten year's diversion of the withholding taxes into the Workforce Development Fund up to the cap of $10 million. Some of the funds raised this way are held at the state level for a variety of projects; most of the money goes back to the community colleges for incumbent worker training.

2. Kansas

Program Summary:

Kansas launched the "SKILL" program—now re-named Impact—in 1992. Like the program in Missouri, Impact serves mainly large companies. Kansas has two other employer-focused training programs funded by the lottery that serve small and mid-sized firms. Since its inception, Impact has spent $75 million on projects

with 35 companies creating 26,000 new jobs. The state does 5 to 10 Impact projects a year. Two-thirds of those companies were new to Kansas; one-third were expanding their employment.

How the Program Works:

At the start of each new proposed project, the state Department of Commerce and Housing (DOCH) makes a projection of the (new) income taxes likely to be paid by the target company over the following ten years. The formula used is based on number of jobs, wages, and average tax bracket of the employees. Ninety percent of the projected amount is then used as the basis for figuring the size of the training "loan" for which the company will be eligible. From that figure, 25-30% is subtracted to cover the bond financing and interest cost. Finally, a negotiated agreement is reached with the company about the project amount.

Assuming the company decides to go forward with the project, it partners with one of the state's colleges. Community colleges, technical colleges and universities are the only eligible program operators. Most projects appear to be operated by community colleges. Together the firm and college craft a training plan that becomes part of ten-year contract between them. The training occurs over a three to five year period; any individual worker is eligible for 36 months of training. The Colleges may provide the training themselves or through another vendor.

When completed, the training plan is presented to an eight member Governor's Council, specifically created for the Impact program. The Council includes five cabinet secretaries (Revenue, Administration, Welfare, Labor, and Commerce), the Commissioner of Education, the Budget Director, and the president of the Kansas Development Finance Authority (KDFA).

Approved projects go to KDFA, which uses a private investment banker to issue the bonds. Originally, bonds were issued on a project-by-project basis. Now the state projects its needs for a year and issues a single bond. The bond cannot exceed 1% of total withholding in the state per year. The state is able to accrue interest on the funds raised by the bonds until the monies are used.

Funds are disbursed as follows: Participating firms send their withholding payments to the Department of Revenue and also reports to the Department of Commerce and Housing (DOCH) the amount of qualifying taxes it has paid. Monies are released from the bank that holds the bond proceeds and are sent to DOCH which disburses the monies to the community colleges. State staff emphasized that the bond repayment mechanism in Kansas is *indirect*. Whereas in Iowa and Missouri there is a direct connection between the funds paid by the firm and the bond repayment, in Kansas there is not. Payments to the KDFA

come from the State General Fund and are appropriated by the legislature and are used to pay off the bond holders.

If a company defaults, they will pay a penalty. The state has formal claim on company assets in case of default. In the life of the program, two companies have defaulted.

3. Missouri

Program Summary:.

The Missouri program is essentially a bond-type program that uses withholding tax diversion, but with a critical difference. The community college issues a "certificate" which is typically purchased by the company that is to receive the training. This is as opposed to selling bonds to a third party. Companies purchase most certificates. The benefiting firm guarantees those certificates that are not directly purchased by a company.

How the Program Works:

The program is limited to companies creating new jobs. (Missouri has two other programs for incumbent workers that are much smaller.) Interested companies apply to the state Department of Economic Development, which approves proposals and ensures that the state's cap on the bond program is not exceeded. (Currently that cap is $55 million). The formula used by Missouri to estimate allowable project size is 2.5% of the projected withholding on the first 100 new jobs created and 1.5% on new jobs above 100.

The "certificates" are issued by the community college that is partnering with the company. Typically the company that will receive the training purchases these certificates; thus in this case the company, not the college, receives the interest on the bond. (Also if the company defaults, it is holding all the liability itself.) If the company is not the purchaser of the certificates—which is unusual —it must guarantee them.

Funds flow is somewhat arcane and convoluted, and following it is not critical to an understanding of the program. But basically it is as follows. The company purchases the certificate; proceeds go to a "trustee" at a commercial bank. The trustee pays service providers for their expenses (e.g., training provider, legal fees, etc.). Once employees are hired, the company pays its withholding taxes to the Department of Revenue, which reports to the Department of Economic Development (DED) what amount is earmarked for the New Jobs Training Program (NJTP). DED then wires a check to the bank Trustee, which uses this money to pay off the certificate (which is normally held by the company that

received the training). DED obtains the money to make these payments to the Trustee from an appropriation from the state.

The program is a business attraction program. Staff considers it to be ideal for large projects; it is aimed at companies creating 100 or more jobs in one year and paying competitive wages. Costs are paid over an 8-10 year period. (There is an 8-year limit on projects over $500,000 and a 10-year limit on those under that amount.) Training may take place over a 3 year time period. Allowable costs are extremely open. The program can pay for third party training (including that by the community colleges), for training that the company provides itself or for OJT at a 50% wage subsidy.

4. North Dakota

Program Summary:

The North Dakota program is different from the other three states in that it does not use bonds as the financing mechanism. Instead, the debt financing is from a commercial bank. There is also a "self financing" option that does not involve debt. North Dakota largely serves small firms, since there are few large firms in that state and, to some extent, allows training of existing as well as new employees. North Dakota also has a separate program financed from general revenues.

How the Program Works:

Eligible companies are "primary" sector employers and those who generate wealth from outside the state. Trainees must earn at least $7.50 per hour and receive benefits within one year of employment. If the firm is new to the state, it must create five jobs to qualify; if the firm is already located within the state, it must create one.

As described in the Kansas program, the state makes an initial determination of the maximum size of the financing package to be offered to the firm using a formula to predict likely withholding taxes. On that basis, a written agreement is entered into between the company and the state establishing the maximum expenditure.

Two possibilities for generating the funds then exist. Either (a) the company obtains a loan from a bank or any commercial lender, or (b) the company underwrites the cost of training itself. The bank loans have fairly typical collateral requirements and have a ten-year term. They have ranged in size from $10,000 to $1 million.

In North Dakota the Job Service administers the program but fiscal controls are through the state tax department and treasurer. To repay these loans, the employer pays its withholding taxes into the state as usual but they are deposited into a special fund. The state itself then pays off the loan from the bank.

A company can also elect to finance the training up front and then be paid back by the state later. In this case, the company is allowed to access 60% of its projected allowable withholding. As withholding payments are made to the state, the state sends payment to the company at a rate of 60% of the allowable withholding. This self-financing mechanism is new and was created by the legislature to meet the need of companies that cannot get or do not want a bank loan. Such companies include start-ups, companies without sufficient collateral, and publicly traded companies that do not want the debt on their balance sheets.

Most of the companies served by the North Dakota program are small (under 100 and perhaps most are under 50 employees). Project size ranges from $10,000 to $1 million. Community colleges have no special role in the program; they can be a vendor.

APPENDIX B

Use Tax Diversion

Definition

"Use tax diversion" refers to a financing method that has been used in Santa Clarita California to direct funding to College of the Canyons. It diverts to the community college taxes that would otherwise be used by the local government.

How the method works

"Use taxes" represent a 1% share of California "sales and use tax" and are paid on the purchase of certain kinds of property and equipment. Normally the 1% tax goes to a pool administered by the county, which then distributes this money among the county and the cities in it based on a formula. In the case of the use tax diversion, a company – Aerospace Dynamics International – stipulated that it wanted 100% of the use tax it paid on a major equipment purchase to go to the city of Santa Clarita, and, further, that half of that amount go to the College of the Canyons for its Center for Applied Competitive Technologies (CACT). The diversion from the city to the community college evidently required city council action. This diversion is made possible under Senate Bill 110, and so could apparently be done in other parts of California.

Viability of expanding use tax diversion to generate a stable funding stream

It would appear that use tax diversion is not a viable way to generate a reliable, stable funding stream for community college's economic development work. However, it may be useful for ED>Net to promote the concept and educate community colleges as to the possibility of use tax diversion because it might generate meaningful revenues in certain circumstances.

There are a number of reasons why this method is unlikely to provide a stable, reliable source of funding. The major problem is that it would produce significant revenue only in instances where a company is making substantial capital purchases. In the case of ADI, the firm was undertaking a major capital expansion program and apparently purchased several millions of dollars of qualifying equipment. These types of purchases are relatively infrequent. SB110 only applies to purchases over $500,000. Another problem is that generating the money depends on the volition of individual businesses, most of whom in California probably do not know about SB110, and if they did, may or

may not be interested on pursuing this route. It clearly takes significant time and energy on the part of an individual in the company to make this type of tax diversion happen. Lastly, it would require an education/information campaign to educated community colleges, local municipalities, and businesses to enable significant use of this method throughout California.

Yet, because it does have the potential of generating significant revenues for individual community colleges, it might be worthwhile to undertake a pilot program to a) determine the likelihood and viability of other companies using this method, and b) determining the what the features of a statewide education/information campaign might be. This method has the potential for building a long –term relationship between the company electing to divert its tax and the local community college. And, in the case of Santa Clarita, since the money was used to support the CACT, which serves numbers of businesses in the community, the benefit of the tax diversion was broader than just to the initiating company. This is a particularly good model to pursue.

APPENDIX C
COMPARING THREE FINANCING MECHANISMS
Using an Evaluative Filter

	IMPACT & STABILITY	FIRM INVOLVEMENT	WORKFORCE ELIGIBILITY	APPROPRIATE TO SMALLER FIRMS	FUNDS TECHNICAL ASSISTANCE	ALIGN COSTS & BENEFITS	INCENTIVES FOR ENTREPRNEURIAL BEHAVIOR BY COMMUNITY COLLEGES
Unemployment Insurance Training Tax	High	Medium	Can serve all workers: new entrants, new hires, incumbent workers.	Yes.	Depends on program design.	Entirely funded by the employer community.	Depends on program design.
Withholding Tax Diversion Administered By Community Colleges	Depends on the entrepreneurial activity of the community colleges.	High	Funding is based on new hires. Could divert funding to serve incumbent workers.	Yes, although there is some bias toward larger firms.	Fosters technical assistance.	Entirely publicly funded although there is an appearance of investment by the firm.	Yes.
Tax Credit Administered By Community Colleges	Depends on the amount of the credit and the entrepreneurial activity of community colleges.	High	Not appropriate for new entrants.	Yes, although larger firms are apt to benefit the most.	Encourages community colleges to work with firms. Program design would have to reimburse technical assistance.	Entirely publicly funded although there is an appearance of investment by the firm.	

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APPENDIX D

SOURCE OF FUNDS FOR EMPLOYER-FOCUSED TRAINING BY STATE

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SOURCE OF FUNDS

General Appropriation

Alabama	Additional funds appropriated as needed.
Arizona	Fixed line-item appropriation. Program can retain used funds.
Arkansas	Also has $2000 tax credit for employers.
Colorado	Both employed worker training programs funded from general appropriation.
Connecticut	In the past, have used state bonds. Also offer tax credits and training loans.
Florida	
Georgia	Also offers tax credits to businesses that provide or sponsor an approved retraining education program for their employees. See "Source of Funds: Other" chart also.
Illinois	Also offers 1.6% training expense income tax credit.
Indiana	See "Source of Funds: Unemployment Insurance" chart also.
Kentucky	Is also initiating an income tax credit for companies.
Louisiana	See "Source of Funds: Other" chart also.
Maine	
Maryland	
Michigan	
Minnesota	
Mississippi	Also offers 25% income tax credit for employers using community colleges or junior colleges for basic skills upgrades not funded through their employed worker training program. See "Source of Funds: Other" chart also.
Missouri	See "Source of Funds: Other" chart also.
Nevada	
New Mexico	
New York	
North Carolina	See "Source of Funds: Unemployment Insurance" chart also.
North Dakota	See "Source of Funds: Other" chart also.
Ohio	
Oklahoma	
Pennsylvania	
South Carolina	
South Dakota	Also use $200,000 of JTPA funds for employed worker training.
Tennessee	
Texas	See "Source of Funds: Unemployment Insurance" chart also.
Utah	
Vermont	
Virginia	
Washington	
West Virginia	
Wisconsin	

Texas	The larger of Texas' two programs is funded through Unemployment Insurance. However, Texas also has a program funded from general revenues in which community and technical colleges are the only eligible applicants (in partnership with one or more employer).

SOURCE OF FUNDS
Unemployment Insurance

Alaska	.01% of employee tax contribution to UI fund.
California	.01% tax on employers who pay UI taxes.
Delaware	.15% tax on the first $8,500 of employees wages. Of this, 25% goes to employed worker training programs. The rest goes to funds other programs, such as dislocated workers and school-to-work.
Hawaii	.05% assessment on employers.
Idaho	3% offset tax set-aside.
Indiana	Use revenue from the UI Penalty and Interest Fund for an apprenticeship program for the skilled trades.
Massachusetts	An assessment on the employer contribution. Funds technical assistance to firms as well as training.
Nebraska	A fixed UI assessment, which amounts to an annual appropriation of about $1 million.
New Jersey	
North Carolina	The smallest of this state's three employed worker training programs is funded half from UI and half from general revenues.
Rhode Island	.15% of employees wages that are subject to the UI tax.
South Dakota	The largest of South Dakota's two programs is financed by a UI tax.
Texas	The largest of this state's programs is UI-funded. .01% of wages paid by employers. See "Source of Funds: General Appropriation" chart also.

SOURCE OF FUNDS
Withholding Tax Diversion

Iowa	Each community college is authorized to sell bonds based on demand for training. All training awards are issued as loans, which are repaid by diverting sate income withholding and property taxes. (Thus the state has to be able to judge a firm's financial viability.) Also Iowa offers a one-time employee tax credit for each employee who participates in a training program.
Kansas	The state has one program funded by the lottery. In addition, the state funds a program through its sale of bonds. Community colleges are the sole eligible program operator.
Missouri	In addition to two programs funded from general revenues, Missouri has a program funded by the sale of certificates. The certificates are then retired using a portion of the state employer withholding tax on all project-related new jobs that are created.
North Dakota	For a pre-determined period, the program captures the state income tax withholding from new jobs created. The funds are used to repay loans or grants received by employers to cover training costs.

SOURCE OF FUNDS

Tax Credit Programs Involving the Community Colleges

Georgia	Tax credit administered by the community colleges. The tax credit is not as large as in some states but is administered by the technical institutes and places them squarely in the role of "broker", helping companies define their training needs and design their programs.
Mississippi	Tax credit for basic skills upgrading through the community colleges. Most training is funded from general revenues, however Mississippi also offers a 25% tax credit to employers that use the community colleges to provide basic skills upgrading since that kind of training is not funded through the customized training program.

Source of information: Regional Technology Strategies, "A Comprehensive Look at State-Funded, Employer-Focused Job Training Programs", Duscha and Graves, "State-Financed and Customized Training Programs; and interviews.

APPENDIX E

ROLE OF THE COMMUNITY/TECHNICAL COLLEGE SYSTEM IN EMPLOYER-FOCUSED TRAINING BY STATE

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COMMUNITY/TECHNICAL COLLEGES AS SOLE PROVIDERS AND/OR ADMINISTRATORS

Georgia	**Administration and training.** A single state agency administers post-secondary technical training, adult literacy programs, and the state's employed worker training programs. Job training programs are administered through the community/technical college system, which also provides most the training. Training is also provided by the parent state agency itself. (Some training is provided by private vendors but the role of the community/technical colleges and the state parent agency is so central to the Georgia system that it is included in this list.) The community/technical college system is also in charge of adult basic education. The tax credit system is administered by the technical institutes. Credits and credentials awarded for workplace training transfer smoothly into those of the technical institutes, colleges, and universities.
Mississippi	**Training.** Program is administered by the Department of Education. Community and technical colleges deliver all the training.
Missouri***	**Administration and training in one of the state's 3 programs:** Missouri does not really belong on this list. In the largest of Missouri's three programs ($15million in 1998), community colleges are simply a provider. In the smallest of the three ($5 million in 1998), community colleges are a preferred provider. But in the third program ($8 million in 1998) is administered jointly by the Department of Economic Development and the community college system. Applicant companies must partner with a community college and colleges issue the bonds for the debt financing.
Nevada	**Training.** All training is delivered by public post-secondary institutions. The schools are involved in the entire grant process, from design and initial application to delivery. Funding is awarded to the schools, not the employers.
North Carolina	**Administration and training.** All three programs are administered and delivered by the community college system.

South Carolina	**Administration and training by technical college system.** Program is operated through the state board for technical and comprehensive education. The state board is involved in all aspects of the program set up and design. A regional program manager is assigned to each project. Technical colleges deliver all training. Any specialized equipment needed is purchased for the college.
South Dakota	**All training in one of the state's two programs.** The smaller of South Dakota's two programs requires that all training be delivered through the state's four technical colleges.
Texas***	**All training in one of the state's three programs.** Texas does not really belong on this list. In the largest of their two programs ($54 million in 1998), the community colleges are simply a vendor. Funds flow directly to employers and community colleges provide roughly one-third of all training. But in the case of a smaller program ($12.5 million in 1998), funds are awarded to community and technical colleges to develop customized job training. This program also favors consortia projects.

COLLEGES AS PREFERRED VENDOR AND/OR ADMINISTRATOR

Colorado	**Role varies by program.** Has two programs. 1) Colorado First is administered jointly by the Colorado Community College and Occupational Education System and the Office of Business Development. Community colleges receive about 80% of the program's funding. 2) Existing Industry Job Training Program is not administered by the community colleges but most of the training is done by them.
Florida	**Fiscal agent.** Florida community colleges actually do only 7% of all training but, by law, they are the local fiscal agents for the training funds and oversee the training programs. Most training is done by the employers themselves. See also "Community Colleges as Vendors" chart.
Idaho	**Training.** The community colleges are preferred providers. They receive about 75% of the training dollars.
Indiana	**Role varies by program.** Has several programs. 1) Training 2000, the largest program, is administered by the Ivy Tech, Indiana's technical college system. About 60% of the training dollars go to the technical and community colleges. 2) Workforce Literacy program: the community and technical colleges are simply providers. 3) In the other programs, the community and technical colleges are preferred providers.
Iowa	**Program design and training.** Has two programs: 1) Industrial New Jobs Training Program is the largest. Interested firms make their initial contact with the community college, which develops the training plan and oversees the program. It is not required, however, that the community colleges actually deliver the training. 2) Workforce Development Fund: most of the funds go to community colleges to set up training programs for companies.
Kansas	**Training.** Two programs. In one, projects using public community colleges, technical schools, or four year schools get preference in the review process. And in the larger of the two programs, a partnership between a firm and a school is required.

Louisiana	**Administration and training in smaller of the state's two programs.** Community colleges are simply a provider in the largest program. A smaller program is administered by the state superintendent of education and funds go to the community colleges and technical schools.
Michigan	**Training.** Community colleges are a preferred provider. It is required that 70% of the funds be awarded to community colleges.
Minnesota	**Training.** Community and technical colleges are a preferred provider. They receive approximately 70% of the funding.
Missouri***	**Role varies by program.** See description of Missouri in "Community/Technical Colleges as Sole Providers" above. See Missouri also in list of "Community Colleges as Vendors"
New Jersey	**Training.** Community colleges are treated as a preferred provider.
Oklahoma	**Administration and training by vocational and technical school system.** Program is administered by the Department of Vo-Tech Education and the funds flow through the local vocational and technical schools. However, firms are not required to use these schools as their sole training provider. About 70% of the actual training is provided by the vocational and technical schools.

COLLEGES AS PREFERRED VENDOR AND/OR ADMINISTRATOR CONTINUED

Oregon	**Training.** The funds flow to the providers and most projects are collaborations between a community college and an employer or trade association.
Utah	**Training.** Funds are disbursed to community colleges and applied technology centers and they provide local coordination and oversight of the program. However, grant decisions are made centrally at the state level by the education office.
Washington	**Training.** Community colleges are the preferred provider. They receive approximately 70% of the training funds.

COMMUNITY COLLEGES AS VENDOR

- Alabama
- Alaska
- Arizona
- Arkansas
- California
- Connecticut
- Delaware
- Florida
- Hawaii
- Illinois
- Kentucky
- Maryland
- Massachusetts
- Missouri***
- Nebraska
- New Mexico
- New York
- North Dakota
- Ohio
- Pennsylvania
- Rhode Island
- South Dakota
- Tennessee
- Texas***
- Vermont
- Virginia
- West Virginia
- Wisconsin

Source of information: Regional Technology Strategies. "A Comprehensive Look at State-Funded, Employer-Focused Job Training Programs". Duscha and Graves. "State-Financed and Customized Training Programs, and interviews.

APPENDIX F

COMPARING SOURCE OF FUNDING WITH ROLE OF THE COMMUNITY/TECHNICAL COLLEGE SYSTEM IN EMPLOYER-FOCUSED TRAINING BY STATE

COLLEGES AS SOLE PROVIDERS AND/OR ADMINISTRATORS

State	Source of Funds	Comment
Georgia	General Revenues Tax credit administered by the community colleges	Most of the employer-focused training is funded through a general appropriation. But there is also a tax credit administered by the community colleges.
Mississippi	General Revenues Tax credit for employers doing skills upgrading at community colleges	Most of the employer-focused training is funded through a general appropriation. But employers are also offered a tax credit for basic skills upgrading done through a community college.
Missouri***	Sale of certificates	Missouri does not really belong on a list of states that use the community college system as the sole provider of employer-focused training. Most of this training is funded out of general revenues and community colleges are a vendor. However, one of Missouri's three employer-focused training programs is administered jointly by the community college system and the Department of Economic Development. It is funded by the sale of certificates and companies must partner with a community college.
Nevada	General Revenues	All training is delivered by public post-secondary institutions. Funds are awarded to the schools, not employers.
North Carolina	General Revenues	All three programs are administered and delivered by the community college system.
South Carolina	General Revenues	The program is administered and training is delivered by the technical college system.
South Dakota	Unemployment Insurance General Revenues	The smallest of the two programs, funded by general revenues, is delivered through the technical colleges.
Texas***	General Revenues	Texas also does not really belong on this list. Most of its employer-focused training is funded through a UI tax and community colleges are simply a vendor. However Texas has one program funded from general revenues in which community colleges, in partnership with employers, are the only eligible applicants.

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COLLEGES AS PREFERRED PROVIDERS AND/OR ADMINISTRATORS

State	Source of Funds	Comment
Colorado	General Revenues	The community college system jointly administers one of Colorado's two programs and delivers most of the training in both.
Florida	General Revenues	Community colleges do very little of the employer-focused training (7%) but they are fiscal agents for the program.
Idaho	Unemployment Insurance	Community colleges are preferred providers, delivering about 75% of the training.
Indiana	General Revenues	Indiana has several programs. The largest is administered by the technical college system, that also delivers about 60% of the training.
Iowa	Sale of bonds	Community colleges play central roles in both of the state's two programs.
Kansas	Lottery funds	In the state's two programs, community colleges receive preference as vendors.
Louisiana***	Interest Earned from an Off-shore settlement	In the largest program, community colleges are just vendors. A smaller program ($1million) is administered by education and funds go to technical and community colleges.
Michigan	General Revenues	It is required that 70% of funds be awarded community colleges.
New Jersey	Unemployment Insurance	The community colleges are treated as preferred providers.
Oklahoma	General Revenues	The program is administered by the technical school system and funds flow to vocational and technical schools. They provide about 70% of the training.
Oregon	N/A	Funds flow to providers and most projects are collaborations between colleges and employers.
Utah	General Revenues	Funds are disbursed to colleges and applied technology centers. Grant decisions are made at the state level.
Washington	General Revenues	Community colleges provide about 70% of all training.

APPENDIX G

PERCENTAGE OF STATE FUNDS FOR NEW OR EXPANDING BUSINESSES

PERCENTAGE OF STATE FUNDING FOR NEW OR EXPANDING BUSINESSES

Nationally approximately 34% of employer-focused training funds are spent on businesses new to the state. Another 40% of the funding is used for businesses that are adding jobs. This table details the amount of funding spent by each state by program for new and expanding businesses. Those states where the community college plays a major role in the program are listed in **bold**. In some cases, the data are not collected by the state and therefore not available. When possible, the percentage of funds used for new business is also listed in bold.

Alabama	**50%** of funding goes to new employers to the state. Another 40% goes to firms that are expanding employment.
Alaska	N/A
Arizona	**50%** of funding goes to new employers to the state. Another 50% goes to firms that are expanding employment.
Arkansas	**60%** of funding goes to new employers to the state. Another 30% goes to firms that are expanding employment.
California	N/A
Colorado	a) FIRST: **25%** of funding goes to new employers to the state. Another 75% goes to firms that are expanding employment. b) Existing Industry Job Training Program: **None** of funding goes to new employers to the state; 50% goes to firms that are expanding employment.
Connecticut	**5%** of funding goes to new employers to the state. Another 35% goes to firms that are expanding employment.
Delaware	**20%** of funding goes to new employers to the state. Another 20% goes to firms that are expanding employment.
Florida	**35%** of funding goes to new employers to the state. Another 65% goes to firms that are expanding employment.
Georgia	**40%** of funding goes to new employers to the state. Another 60% goes to firms that are expanding employment.
Hawaii	N/A
Idaho	**60%** of funding goes to new employers to the state. Another 35% goes to firms that are expanding employment.
Illinois	All programs focused on existing employees.
Indiana	a) Training 2000: **16%** of funding goes to new employers to the state. Another 84% goes to firms that are expanding employment. b) Two other programs focus on existing workers.
Iowa	a) Industrial New Jobs Training Program: All funding is for new jobs. There is no data however on what percent of funding goes to employers new to the state. However, interviews suggest INJTP clearly sees business attraction as a key part of its mandate. b) Workforce Development Fund: 40% of the funds go to new and existing employers that are adding labor.
Kansas	a)KIT/KIR: **25%** of funding goes to new employers to the state. Another 35% goes to firms that are expanding employment. b) IMPACT: All funding is for new jobs. Kansas clearly uses this as a business attraction program.
Louisiana	a) Workforce Development and Training Program: **40%** of funding goes to new employers to the state. Another 40% goes to firms that are expanding employment. b) Quickstart: **100%** of funding goes to new employers to the state.
Maine	**1%** of funding goes to new employers to the state. Another 19% goes to firms that are expanding employment.

PERCENTAGE OF STATE FUNDING FOR NEW OR EXPANDING BUSINESSES

Maryland	a) Maryland Industrial Training Program: **40%** of funding goes to new employers to the state. Another 60% goes to firms that are expanding employment. b) Partnership for Workforce Quality: Focuses on incumbent workers
Massachusetts	All funding is for incumbent workers.
Michigan	**20%** of funds goes to new employers to the state. Another 40% goes to firms that are expanding employment.
Minnesota	N/A
Mississippi	**8%** of funding goes to new employers to the state. Another 16% goes to firms that are expanding employment.
Missouri	a) Missouri Job Development Fund: 45% of funding goes to new and existing employers that are adding jobs. b) Community College New Jobs Training Program: 100% of funding goes to new employers to the state. c) DESE Customized Training Program: 10% of funding goes to new employers to the state. Another 70% goes to firms that are expanding employment.
Nebraska	**None**. All funding is for existing employers.
Nevada	All funding is for new employers and employers that are adding jobs.
New Jersey	**15%** of funding goes to new employers to the state. Another 60% goes to firms that are expanding employment.
New Mexico	**71%** of funding goes to new employers to the state. Another 29% goes to firms that are expanding employment.
New York	N/A
North Carolina	a) Focused Industrial Training: **None**: All funds are for incumbent workers. b) New and Expanding Industry Program: **50%** of funding goes to new employers to the state. Another 50% goes to firms that are expanding employment. c) Occupational Continuing Education: N/A.
North Dakota	**40%** of funding goes to new employers to the state. Another 50% goes to firms that are expanding employment.
Ohio	**32%** of funding goes to new employers to the state. Another 34% goes to firms that are expanding employment.
Oklahoma	**50%** of funding goes to new employers to the state. Another 50% goes to firms that are expanding employment.
Oregon	N/A
Pennsylvania	N/A
Rhode Island	N/A
South Carolina	**50%** of funding goes to new employers to the state. Another 50% goes to firms that are expanding employment.
South Dakota	**48%** of funding goes to new employers to the state. Another 38% goes to firms that are expanding employment.
Tennessee	**40%** of funding goes to new employers to the state. Another 60% goes to firms that are expanding employment.
Texas	a) Skills Development Fund: **10%** of funding goes to new employers to the state. Another 55% goes to firms that are expanding employment. b) Smart Jobs Fund: **19%** of funding goes to new employers to the state.
Utah	The program does fund new employers. No breakdown is available of the percentage of program funds these employers receive.
Vermont	**20%** of funding goes to new employers to the state. Another 60% goes to firms that are expanding employment.

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PERCENTAGE OF STATE FUNDING FOR NEW OR EXPANDING BUSINESSES

Virginia	**45%** of funding goes to new employers to the state. Another 45% goes to firms that are expanding employment.
Washington	**38%** of funding goes to new employers to the state. Another 42% goes to firms that are expanding employment.
West Virginia	**29%** of funding goes to new employers to the state. Another 28% goes to firms that are expanding employment.
Wisconsin	**20%** of funding goes to new employers to the state. Another 70% goes to firms that are expanding employment.

Source of information: Regional Technology Strategies. "A Comprehensive Look at State-Funded, Employer-Focused Job Training Programs". Duscha and Graves. "State-Financed and Customized Training Programs; and interviews.

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